

LETTER FROM THE CHAIRMAN

11 February 2019

Dear NAB CPS holder

Important information for NAB Convertible Preference Share (CPS) holders

The purpose of this letter is to advise you of two important events that have occurred in connection with your CPS.

On 11 February 2019:

1. NAB issued a “resale notice” under the CPS Terms. That notice confirms that on 20 March 2019, all CPS on issue will be mandatorily purchased by a nominated purchaser appointed by NAB for \$100 per CPS (**CPS Resale Proceeds**).
2. NAB announced an offer of new securities called NAB Capital Notes 3. That offer contains a “**Reinvestment Offer**” that provides Eligible CPS Holders the option to have their CPS Resale Proceeds reinvested directly into NAB Capital Notes 3 to maintain an ongoing investment in securities issued by NAB.

What are my options?

If you are an Eligible CPS Holder you can either:

1. **Apply to reinvest** all or some of the CPS Resale Proceeds into NAB Capital Notes 3 through the Reinvestment Offer. You may reinvest based on the CPS you held at 7.00pm (Melbourne time) on 7 February 2019. No separate cash payment is required under the Reinvestment Offer;
2. **Sell your CPS on market** through your broker. The last day for trading in CPS on market will be 1 March 2019; or
3. **Receive cash**. If you do nothing, you will receive \$100 for each CPS you hold on 20 March 2019.

If you hold CPS but are **not** an Eligible CPS Holder you can either:

1. **Sell your CPS on market** through your broker. The last day for trading in CPS on market will be 1 March 2019; or
2. **Receive cash**. If you do nothing, you will receive \$100 for each CPS you hold on 20 March 2019.

Am I an “Eligible CPS Holder”?

You are an “Eligible CPS Holder” who can participate in the Reinvestment Offer if you:

- were registered as a holder of CPS at 7.00pm (Melbourne time) on 7 February 2019;
- are shown on the CPS register as having an address in Australia;
- are not an individual residing in a member state of the European Union; and
- are not in the United States or acting as a nominee for, or for the account or benefit of, a U.S. Person or not otherwise prevented from receiving the Reinvestment Offer or NAB Capital Notes 3 under the laws of any jurisdiction.

What are NAB Capital Notes 3?

NAB Capital Notes 3 are convertible, subordinated notes that are scheduled to pay quarterly, floating rate distributions in cash subject to the satisfaction of certain conditions. Those distributions are expected to be fully franked. The distribution rate is equal to the sum of the Bank Bill Rate plus a Margin (expected to be in the range of 4.00% to 4.20%), adjusted for NAB's tax rate.

NAB Capital Notes 3 do not have a fixed maturity date for repayment and holders do not have a right to request or require NAB to Convert, Redeem or Resell NAB Capital Notes 3. Therefore, it is possible that NAB Capital Notes 3 could remain on issue indefinitely and the Face Value will not be repaid. However, there are certain events that could occur while NAB Capital Notes 3 are on issue, which may result in NAB Capital Notes 3 being Converted into NAB Ordinary Shares, Redeemed or Resold for cash, or Written Off.

Full details of those events and the NAB Capital Notes 3 are contained in the NAB Capital Notes 3 Prospectus issued by NAB on 11 February 2019 (**Prospectus**).

Are there differences between NAB Capital Notes 3 and CPS?

Yes – there are important differences between NAB Capital Notes 3 and CPS that you should consider before deciding whether to apply to participate in the Reinvestment Offer. The Reinvestment Offer is not a simple rollover into a similar investment. Those differences are outlined in Section 3.2 of the Prospectus and some are outlined below:

Topic	CPS	NAB Capital Notes 3
Margin	3.20%	Expected to be in the range of 4.00% to 4.20%
NAB's early redemption option	Yes – on 20 March 2019 (6 years after the issue date), all CPS will be purchased by a nominated purchaser for \$100 per CPS	Yes – on 17 June 2026 (7.25 years after the issue date), subject to APRA's prior written approval
Term	On 20 March 2019, all CPS will be purchased by a nominated purchaser for \$100 per CPS	Perpetual, with a Mandatory Conversion Date of 19 June 2028, subject to the Mandatory Conversion Conditions being satisfied

How do I apply to participate in the Reinvestment Offer?

The Reinvestment Offer is expected to open on 19 February 2019.

Once the Reinvestment Offer opens, applications can be made either:

1. by completing the Reinvestment Offer Application Form online at nab.com.au/ncn3offer; or
2. by completing a paper copy of the Reinvestment Offer Application Form. To receive a paper copy of the Prospectus and Reinvestment Offer Application Form, call the NAB Information Line on **1300 367 647** (within Australia) or on **+61 3 9415 4299** (outside Australia) (Monday to Friday 8.00am – 7.30pm Melbourne time); or
3. through your Syndicate Broker.

Applications must be received prior to the Closing Date at 5.00pm (Melbourne time) on 14 March 2019.

If you apply to participate in the Reinvestment Offer, your CPS Resale Proceeds will be used as the Application Monies. This means that no separate cash payment is required under the Reinvestment Offer.

See Sections 3.3 and 4 of the Prospectus for more information on how to apply to participate in the Reinvestment Offer.

It is important that you read and consider the Prospectus in full before making an Application. You should carefully consider the risks and other information in the Prospectus in light of your investment objectives, financial situation and particular needs (including financial and taxation issues).

Can I apply for additional NAB Capital Notes 3?

Yes – you may apply for more NAB Capital Notes 3 than the number of CPS registered in your name at 7.00pm (Melbourne time) on 7 February 2019. The application for additional NAB Capital Notes 3 will be made under the Securityholder Offer and you will be required to pay \$100 cash for each additional NAB Capital Note 3 you apply for.

Is there a chance the CPS Resale will not occur?

The resale notice is irrevocable, except as provided by the CPS Terms. The CPS Resale may not occur for a number of reasons, including if a loss absorption event occurs, the CPS nominated purchaser does not for any reason pay the CPS Resale Proceeds in full on 20 March 2019, APRA revokes its approval of the CPS Resale or the CPS cannot be transferred for any reason. If the CPS Resale does not occur, except where a loss absorption event occurs in respect of CPS, CPS holders will continue to hold CPS.

How will I receive my CPS Resale Proceeds if I don't participate in the Reinvestment Offer?

If you do not participate in the Reinvestment Offer, the cash proceeds of the CPS Resale will be paid to you using the same payment instructions that apply for your dividend payments.

Will I receive the CPS dividend scheduled to be paid on 20 March 2019?

A final dividend of \$1.2976 per CPS is scheduled to be paid by NAB on 20 March 2019, subject to the satisfaction of the dividend payment conditions in the CPS Terms. If those conditions are satisfied, all CPS holders on the record date for the final dividend (5 March 2019) will receive a cash payment of \$0.9083 per CPS on 20 March 2019.

Where can I get more information?

Full details of the NAB Capital Notes 3 and the Reinvestment Offer are contained in the Prospectus. You can download an electronic copy of the Prospectus, request a paper copy of the Prospectus and read more information by visiting nab.com.au/ncn3offer. Alternatively, you can call the NAB Information Line to order the Prospectus or obtain further information on **1300 367 647** (within Australia) or on **+61 3 9415 4299** (outside Australia) (Monday to Friday 8.00am – 7.30pm Melbourne time) during the Offer period.

Unless otherwise defined, capitalised terms used in this letter have the meaning given to them in the Prospectus.

On behalf of the NAB Directors, I thank you for your support and for considering this investment opportunity.

Yours sincerely



Ken Henry AC
Chairman

Important information

This letter is not an offer of, or invitation to apply for, NAB Capital Notes 3. The offer of NAB Capital Notes 3 is made in the Prospectus. Anyone wishing to apply for NAB Capital Notes 3 will need to read the Prospectus and complete the Application Form accompanying the Prospectus.

This letter and the information it contains is not investment advice and has been prepared without taking into account your investment objectives, financial situation or particular needs (including financial and taxation issues).

The full terms and conditions of NAB Capital Notes 3 are contained in the Terms. It is important that you read the Prospectus in full, and consider the Terms, before deciding to invest in NAB Capital Notes 3.

You should also consider the risks that could affect the performance of NAB Capital Notes 3, including Distribution Rate risk and market price fluctuation. These risks could result in the loss of all or some of your investment and any associated income. NAB does not warrant or guarantee the future performance of NAB or the investment performance of NAB Capital Notes 3 (including the market price). If you have any questions, you should seek advice from your financial adviser or other professional adviser.

NAB Capital Notes 3 do not constitute deposit liabilities of NAB, are not Protected Accounts for the purposes of the Banking Act or any other accounts with NAB and are not guaranteed or insured by any government, government agency or compensation scheme of the Commonwealth of Australia or any other jurisdiction, by any member of the NAB Group or by any other party.

NAB Capital Notes 3 have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (Securities Act), or the securities laws of any state of the United States and may not be offered, sold or resold in the United States or to, or for the account or benefit of, any "U.S. Person" as defined in Regulation S under the Securities Act unless the NAB Capital Notes 3 are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. Any offer, sale or resale of the NAB Capital Notes 3 within the United States by any dealer (whether or not participating in the Offer) may violate the registration requirements of the Securities Act if made within 40 days after the Closing Date or if purchased by a dealer in the Offer.